

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF WEST MCCRACKEN )  
COUNTY WATER DISTRICT FOR ) CASE NO. 2010-00454  
APPROVAL OF INCREASED RATES FOR )  
WATER SERVICE )

ORDER

West McCracken County Water District ("West McCracken District") applied for authority to increase its water rates. By this Order, we establish rates that will produce annual revenues from water sales of \$653,343, an increase of \$84,453, or 14.85 percent, over normalized revenue from rates of \$568,890. The approved rates will increase the average monthly residential bill of 5,000 gallons from \$28.94 to \$33.25, an increase of \$4.31, or 14.9 percent.

West McCracken District, a water district organized pursuant to KRS Chapter 74, owns and operates facilities that distribute and furnish water to approximately 1,489 customers in western McCracken County, Kentucky.<sup>1</sup> It is a utility subject to Commission jurisdiction.<sup>2</sup> West McCracken District's most recent general rate adjustment occurred in 2007.<sup>3</sup>

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<sup>1</sup> Annual Report of West McCracken County Water District to the Public Service Commission For the Calendar Year Ended December 31, 2010 at 5 and 27.

<sup>2</sup> KRS 278.010(3)(d); KRS 278.015.

<sup>3</sup> Case No. 2006-00542, *Application of West McCracken County Water District For Approval of a Proposed Increase in Rates For Water Service, To Increase Non-Recurring Charges, and To Revise Its Tariff Accordingly* (Ky. PSC June 22, 2007).

West McCracken District's application for general rate adjustment was filed with the Commission on December 16, 2010.<sup>4</sup> West McCracken District's proposed rates would increase the average monthly residential bill of 5,000 gallons from \$28.94 to \$31.87, an increase of \$2.94, or 10.1 percent,<sup>5</sup> and would generate annual revenues from water sales of \$626,293.<sup>6</sup> West McCracken District proposed to place its rates into effect on January 25, 2011. Finding that further investigation of the proposed rates was necessary, the Commission suspended the operation of the proposed rates for five months and initiated this proceeding.

The Commission directed Commission Staff to perform a limited financial review of West McCracken's test-period operations. On June 8, 2011, Commission Staff issued a report containing its findings and recommendations in which it found that West McCracken District's pro forma operations supported a revenue requirement of \$760,601. Commission Staff further found that West McCracken District's requested revenue requirement of \$626,293 from water sales would produce a positive cash flow of \$72,475, would be sufficient for West McCracken to pay its pro forma "cash" expenses, and would allow West McCracken to meet its existing debt service obligations. Commission Staff recommended that the Commission approve the proposed rates.

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<sup>4</sup> West McCracken District tendered its application on November 23, 2010. The Commission refused to accept the application because it failed to comply with certain provisions of 807 KAR 5:001. The Commission's Executive Director notified West McCracken of this failure on December 7, 2010. West McCracken supplemented its application on December 16, 2010 to cure the filing deficiencies.

<sup>5</sup> Application, Exhibit 8.

<sup>6</sup> *Id.*, Exhibit 5 at 2.

On June 8, 2011, the Commission released Commission Staff's report and directed West McCracken District to submit any written comments on or objections to the report's findings and recommendations within 14 days. We directed West McCracken District to file in writing with the Commission its position on adjusting its rates to the level that would produce annual revenues of \$760,601. We further directed West McCracken District to respond to Commission Staff's findings regarding the appropriateness of rates that would produce annual revenues of \$760,601 and to state its intentions regarding those rates. Finally, we directed West McCracken District, if it wished to receive such rates, to publish notice of its intentions to its customers.

On June 13, 2011, West McCracken District notified the Commission in writing of its intent to place its proposed rates into effect on June 25, 2011.<sup>7</sup> On June 22, 2011, West McCracken District advised the Commission in writing that rates producing annual revenues of \$760,601 "would place an undue burden on its ratepayers" and that it declined to request such rates.<sup>8</sup> Instead, it requested its present rates be increased approximately 15 percent rather than the ten percent reflected in its application. West

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<sup>7</sup> KRS 278.190(2) provides in pertinent part:

If the proceeding has not been concluded and an order made at the expiration of five (5) months, or six (6) months, as appropriate, the utility may place the proposed change of rate, charge, classification, or service in effect at the end of that period after notifying the commission, in writing, of its intention so to do. Where increased rates or charges are thus made effective, the commission may, by order, require the interested utility or utilities to maintain their records in a manner as will enable them, or the commission, or any of its customers, to determine the amounts to be refunded and to whom due in the event a refund is ordered, and upon completion of the hearing and decision may, by further order, require such utility or utilities to refund to the persons in whose behalf the amounts were paid that portion of the increased rates or charges as by its decision shall be found unreasonable.

<sup>8</sup> Letter from William A. Tanner, Superintendent, West McCracken County Water District, to Jeff Derouen, Executive Director, Public Service Commission (June 21, 2011) (filed on June 22, 2011).

McCracken District also provided proof that notice of its request had been mailed to its customers. As of the date of this Order, the Commission has not received any comments regarding West McCracken District's request.<sup>9</sup>

Having considered the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. The findings and recommendations contained in the Commission Staff's report are supported by the evidence of record, are reasonable, and should be adopted.

2. The calendar year ending December 31, 2009 should be used as the test period to determine the reasonableness of West McCracken District's existing and proposed rates.

3. Based upon pro forma test-period operations, West McCracken District's pro forma annual revenues are \$591,577. Approximately \$568,890 of these revenues resulted from water sales.

4. Based upon pro forma test-period operations, West McCracken District's pro forma total operating expenses, after adjusting for known and measurable changes, is \$708,073.

5. Given that West McCracken District is a water district, the use of debt service coverage methodology to determine its total revenue requirement is appropriate.

6. The use of a debt service coverage ratio of 1.1x should be used to determine West McCracken District's total revenue requirement.

7. Applying a debt service coverage of 1.1x to West McCracken District's average debt service requirement for the period from 2011 to 2013 produces a total

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<sup>9</sup> No person has sought intervention in this proceeding.

revenue requirement of \$760,601, or \$191,711 more than the rates in effect as of December 16, 2010 produce.

8. The proposed rates set forth in West McCracken District's application will produce total annual revenues from test period sales of \$626,293.

9. In light of Commission Staff's findings and recommendations, West McCracken District has proposed that the Commission authorize rates that produce total annual revenues of \$653,343, an increase of \$84,453, or 14.85 percent, over normalized revenue from rates of \$568,890.

10. Based upon test-period operations, West McCracken District, if authorized rates that produce total annual revenues of \$653,343 from water sales, will have a positive cash flow of \$76,768<sup>10</sup> and will be able meet its pro forma "cash" expenses and debt service requirements.

11. The rates set forth in the Appendix to this Order will produce annual revenues of \$653,343 from water sales. Implementation of these rates is not likely to cause the service that West McCracken District renders to the public to suffer.

12. When a utility has requested rates that are less than a regulatory commission determines "would furnish a fair return then, in the absence of some factor which would in the public interest require that larger rates be charged, the rates requested by the utility ought to be allowed."<sup>11</sup>

<sup>10</sup> Amended Revenue Requirement	\$	653,343
Less: Operating Expenses	-	710,420
Add: Depreciation & Amortization	+	200,152
Sub-total	\$	143,075
Less: Debt Service	-	66,307
Net Cash Flow	\$	76,768

<sup>11</sup> *Utilities Operating Co. v. King*, 143 So.2d 854, 857-858 (Fla. 1962).

13. The rates set forth in the Appendix to this Order should be approved for water service that West McCracken District renders on and after the date of this Order.<sup>12</sup>

IT IS THEREFORE ORDERED that:

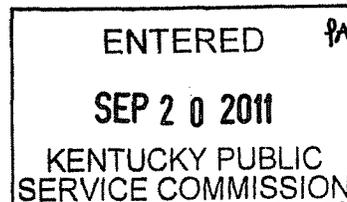
1. The findings and recommendations contained in the Commission Staff's report are adopted and incorporated by reference into this Order as if fully set out herein.

2. The rates for water service set forth in West McCracken District's application are denied.

3. West McCracken District is authorized to assess the rates set forth in the Appendix to this Order for service rendered on and after the date of this Order.

4. Within 20 days of the date of this Order, West McCracken District shall file revised tariff sheets with the Commission setting forth the rates approved in this Order.

By the Commission



ATTEST:

Executive Director

<sup>12</sup> To the extent that the rates that we have approved in this Order are higher than those that are set forth in West McCracken District's application and that have been in effect since June 24, 2011, KRS 278.190(2) does not require any refunds of amounts collected since that date.

## APPENDIX

### APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2010-00454 DATED **SEP 20 2011**

The following rates are prescribed for the customers in the area served by West McCracken County Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

#### Minimum Bill with Zero Usage

5/8" Meter	\$	6.65
1" Meter	\$	16.64
2" Meter	\$	66.56
3" Meter	\$	99.84
4" Meter	\$	166.40

#### All Water Usage

First	100,000	Gallons	\$	5.32	Per 1,000 Gallons
Over	100,000	Gallons	\$	3.62	Per 1,000 Gallons

#### Bulk Water Sales

\$	5.75	Per 1,000 Gallons
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William Tanner  
Superintendent  
West McCracken County Water District  
8020 Ogden Landing Road  
West Paducah, KY 42086